

OLC 78-0581

14 FEB 1978

Pr leg

MEMORANDUM FOR: Director of Central Intelligence

STAT FROM:
Acting Legislative Counsel

SUBJECT: Section 912 of the Internal Revenue Code

1. (U) Action Requested: Attached for your consideration and signature are two letters to Secretary Blumenthal and James McIntyre, Director, OMB, urging them to withdraw legislation which would modify Section 912 of the tax code.

2. (U) Background: At a Cabinet meeting on 25 July 1977, Secretary of the Treasury Blumenthal mentioned the possibility of legislation which would rescind Section 912 of the Internal Revenue Code, thereby making allowances paid to overseas personnel taxable income. In response to this action, you sent him a letter (August 1, 1977) in which you expressed the concern that a revision of the law would be a mistake and that it would have serious implications for this Agency and other agencies with personnel overseas. On 15 September 1977, Secretary Blumenthal gave you his personal commitment that no modification to Section 912 would be proposed without notifying the Interagency Committee on Overseas Allowances and Benefits, which represents the twenty agencies with personnel in foreign areas and on which we have a representative.

3. (U) Today, we have been informed by the State Department that on 10 February 1978, the Treasury Department submitted a recommendation to OMB to modify Section 912. Briefly, the modification would tax the cost-of-living allowances granted to employees in Alaska and Hawaii, but, more importantly, the proposed legislation would also tax the cost of housing up to twenty percent of an employee's income.

4. (U) The State Department has already written a strong letter of protest to Secretary Blumenthal. The House Ways and Means Committee is planning public hearings on Section 912 on 23 and 24 February 1978.

5. (U) Staff Position: The attached letters have been coordinated with [] DDA, and [] Office of the Comptroller.

6. (U) Recommendation: That you sign the letters and at a Cabinet meeting, when the opportunity presents itself, to talk to Secretary Blumenthal about our concerns.

SIGNED

[]

Attachments:

As stated

Distribution:

Orig - Addressee

1 - DDCI

1 - ER

1 - DDA

1 - Compt

1 - OLC Subject

1 - OLC Chrono

OLC:YTF:baa (14 Feb 78)